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NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 EB-04 CIEP-01

TRSE-00 OMB-01 CEA-01 LAB-01 FRB-01 /091 R

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APPROVED BY PM/SAS - J. F. LADD

4EB - MRS. CONSTABLE

L/PM - MR. BOREK

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 250243

E.O. 11652:GDS

TAGS: MASS, XX

SUBJECT: OVERSEAS CO-PRODUCTION OF DEFENSE ARTICLES.

1. THIS MESSAGE PROVIDES INFORMATION ON CURRENT USG PROCEDURES GOVERNING APPROVAL OF CO-PRODUCTION AGREEMENTS THAT INVOLVE OVERSEAS ASSEMBLY OR PRODUCTION OF DEFENSE ARTICLES. THIS IS FOR ADDRESSEES' BACKGROUND INFORMATION ONLY AND MAY BE SHARED WITH HOST GOVERNMENTS ONLY ON SPECIFIC DEPARTMENT INSTRUCTIONS. IT IS REALIZED THAT IN SOME INSTANCES CO-PRODUCTION AGREEMENTS BETWEEN HOST GOVERNMENTS AND USG ARE ONLY A REMOTE FUTURE POSSIBILITY; HOWEVER, CURRENT EXPERIENCE INDICATES INCREASING INTEREST IN SUCH ARRANGEMENTS AMONG MANY DEVELOPING AS WELL AS INDUSTRIALLY ADVANCED COUNTRIES. ACCORDINGLY, THIS MESSAGE IS BEING SENT TO ALL DIPLOMATIC POSTS.

2. FOLLOWING SENIOR-LEVEL INTERDEPARTMENTAL DISCUSSIONS, UNDER SECRETARY FOR SECURITY ASSISTANCE ISSUED INTERAGENCY
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CO-PRODUCTION GUIDELINES" ON SEPTEMBER 6, 1973. THESE

GUIDELINES REMAIN IN FORCE AND PROVIDE A BASIS FOR USG CONSIDERATION OF PROPOSALS FOR OVERSEAS PRODUCTION OF DEFENSE ARTICLES WHICH INVOLVE SOME ELEMENT OF USG FUNDING AND/OR WHICH ARE CONCLUDED UNDER THE FOREIGN MILITARY SALES ACT (FMSA). THE GUIDELINES ARE IN ADDITION TO, NOT IN LIEU OF, OTHER APPLICABLE LAWS AND REGULATIONS. AMONG THE LATTER

IS SECTION 42 OF FMSA, WHICH PLACES SPECIAL EMPHASIS ON PROCUREMENT WITHIN US, AND AUTHORIZES OVERSEAS CO-PRODUCTION ONLY WHEN QUOTE IT BEST SERVES FOREIGN POLICY, NATIONAL SECURITY, AND ECONOMY OF THE UNITED STATES. UNQUOTE. SECTION 42(B) MAKES PROVISION OF USG CREDIT CONTINGENT UPON A FULL REPORT TO CONGRESS BY THE SECRETARY OF STATE. THIS IS TO INCLUDE INTER ALIA ASSESSMENT OF PROBABLE IMPACT ON EMPLOYMENT AND PRODUCTION IN THE US. SECTION 42 (C) IMPOSES ADDITIONAL APPROVAL CRITERIA. THE GUIDELINES THUS REQUIRE CONSIDERATION OF EACH PROPOSAL IN CONTEXT OF GENERAL USG POLICY AS WELL AS SPECIFIC MILITARY, ECONOMIC, FINANCIAL, COMMERCIAL, AND POLITICAL IMPLICATIONS. PROCEDURALLY, UPON THE DEPARTMENT'S RECEIPT OF A FORMAL PROPOSAL, PM BUREAU REFERS CASE TO DOD, OMB, NSC, AND TREASURY. WITHIN STATE, EB BUREAU CONCURRENTLY ASSESSES ECONOMIC, FINANCIAL, AND COMMERCIAL ISSUES IN CONSULTATION WITH DEPARTMENTS OF COMMERCE, LABOR, AND OTHER CONCERNED AGENCIES. GEOGRAPHIC BUREAUS AND L PROVIDE FURTHER REVIEW. PM THEN ATTEMPTS TO RESOLVE ANY INTERAGENCY DIFFERENCES AND PREPARES A REPORT FOR SECURITY ASSISTANCE PROGRAM REVIEW COMMITTEE (SAPRC) CONSIDERATION. IF THE CASE IS APPROVED AND INVOLVES CREDIT, PM PREPARES NOTIFICATION TO CONGRESS.

3. (STRICTLY FOR ADDRESSEES' BACKGROUND INFORMATION ONLY). INTERDEPARTMENTAL INTEREST IN ADHERING TO PROCEDURES SET FORTH IN CO-PRODUCTION GUIDELINES RECENTLY HAS INCREASED AS RESULT OF SEVERAL REQUESTS FOR EXCEPTIONALLY SIGNIFICANT CO-PRODUCTION PROJECTS FROM SHAH OF IRAN AND DUE TO GENERAL CONCERN OVER THE TRANSFER OF TECHNOLOGY, AND THE POTENTIAL IMPACT OF CO-PRODUCTION IN TERMS OF THE DOMESTIC US ECONOMIC SITUATION. IN VIEW OF THE GROWING IMPORTANCE OF CO-PRODUCTION IN US FOREIGN ECONOMIC AND POLITICAL RELATIONS, THE GUIDELINES PROCEDURES ARE BEING STREAMLINED; CONFIDENTIAL

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THIS MEANS THAT PROPOSALS WILL RECEIVE MORE CAREFUL, AS WELL AS PROMPT, SCRUTINY TO INSURE MEDIUM AND LONG-TERM IMPACTS ON THE US ECONOMY AND BALANCE OF PAYMENTS SITUATION ARE WEIGHED AS CAREFULLY AS POLITICAL AND MILITARY CONSIDERATIONS.

4. THE DEPARTMENT IS POUCHING A COPY OF THE SEPTEMBER 6, 1973 CO-PRODUCTION GUIDELINES UNDER COVER OF AN AIRGRAM.

POST COMMENTS ARE ENCOURAGED AND WILL FACILITATE WASHINGTON ANALYSES OF THIS ISSUE IN THE GLOBAL CONTEXT. KISSINGER

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